

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION
FINAL UTILITY ORDERS
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WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,

DOCKET NO. UE-031725

Complainant,

ORDER NO. 12

v.

GRANTING APPROVAL FOR
FREDRICKSON I ACQUISITION.

PUGET SOUND ENERGY, INC.,

Respondent.

The test the Commission applies to measure prudence is: what would a reasonable board of directors and company management have decided given what they knew or reasonably should have known to be true at the time they made a decision. This test applies both to the question of need and the appropriateness of the expenditures. The company must establish that it adequately studied the question of whether to purchase these resources and made a reasonable decision, using the data and methods that a reasonable management would have used at the time the decisions were made. *¶ 19; RCW 80.04.130; 80.28.010; 80.28.020.*

Specific factors that should be considered in evaluating the prudence of a utility's decision to acquire a new resource include:

- The utility must first determine whether new resources are necessary. Once a need has been identified, the utility must determine how to fill that need in a cost-effective manner. When a utility is considering the purchase of a resource, it must evaluate that resource against the standards of what other purchases are available, and against the standard of what it would cost to build the resource itself.
- The utility must analyze the resource alternatives using current information that adjusts for such factors as end effects, capital costs, dispatchability, transmission costs, and whatever other factors need specific analysis at the time of a purchase decision.
- The utility should inform its board of directors about the purchase decision and its costs. The utility should also involve the board in the decision process.
- The utility must keep adequate contemporaneous records that will allow the Commission to evaluate its actions with respect to the decision process.

The Commission should be able to follow the utility's decision process; understand the elements that the utility used; and determine the manner in which the utility valued these elements. ¶ 20; RCW 80.04.130; 80.28.010; 80.28.020.